



PANEL C:

Good News / Bad News: You Got the Job!

How to plan for infrastructure changes,
determine the right type of company structure, and
develop financial backing to prepare for that first big job.

Agenda

- Getting Started Diane Peluso
 - **Contract Award**
 - **Implementation**
 - **Prime/Subcontractor**
 - **Contract Financing and Billing**

- Restructuring Your Company Peter Jackson
- Required:
 - **Legal Advisor**
 - **Accounting**
 - **Contracts**
 - **Project Control**
 - **HR**
- Growth will Require:
 - **Breadth & Depth**
 - **Higher Level of Understanding Relationships and Priorities**
 - **Managerial & Executive Growth**
 - **Staff Development**
- Two Questions You Must Continually Ask Yourself:

Agenda

- Developing Financial Backing

Robert Sporrer

- Alternatives
- Considerations
- Goals
- Needs
- Internal Resources
- Cash Flow
- Demands



Ms. Diane Peluso, President and Owner of DMPConsulting, specializes in providing the Government Contractor with the necessary contractual, accounting, auditing and operational expertise to enable them to successfully conduct business with the Federal Government. Ms. Peluso is the former Chief Financial Officer (CFO) and Sr. Vice President of Ocean Systems Engineering, (OSEC), a privately held corporation (1990). OSEC is a customer focused, high technology company predominately involved in the research, design, development, and integration of advanced technology systems and services for government and commercial customers. (See www.osec.com). Under her leadership, OSEC was recognized by the San Diego Business Journal as one of the 50 fastest growing private companies, securing contract awards from the Federal Government. Also during Ms. Peluso's tenure, OSEC, (November 2002), was recognized by the S.D. Business Journal as one of the best companies to work for.

During, Ms. Peluso's 30+ years of in-depth understanding of Government contract accounting, cost accounting, Indirect rate computations, small business support, bid & proposal efforts, she has been involved in all types of proposal submissions, negotiations and awards, spanning most agencies, NSF, (HIH), DoD, DOE, inclusive of Prime, Subcontract, SBIR/STTR, and the management thereof. Prior to establishing her own Business, and following her 9 year tenure at OSEC, Ms. Peluso was Vice President and CFO of Sigmapower, Inc/Axel Electronics, Inc., located in Los Angeles, CA, a small Defense Contractor providing engineering services and manufacture of small parts. Previous to this position, she was a Senior Government Consultant at Mensch & Associates, CPA, where she focused her efforts on indirect rate computation, cost proposal submissions and DCAA audit compliance. Prior to Mensch & Associates, she held positions as produce manager for DATA; Government Job Cost software firm-primarily funded by the SBIR program, Finance Manager at Hughes Aircraft Company, and Pricing/Cost Estimator at both Sundstrand Corporation and Sikorsky Aircraft, a Division of United Technologies.

Ms. Peluso was recently awarded 'Woman of the Year 2001-Accounting' in San Diego. Ms. Peluso currently resides as a Board of Advisor for National Contract Management Association (NCMA) -SD, is CFO of National Search Associates (NSA), and has formerly held positions at NCMA as the National Director, S.D. President, S.D. President-Elect, Meeting Coordinator and Treasurer. She has also been very active in Association of Government Accountants (AGA), formerly serving as President-two year term, and Treasurer. She was recognized in "Who's Who in US Executives and has been frequently sought out as an Expert Witness in areas of Government Auditing and compliance disputes. She holds a B.B.A. emphasis in Accounting.

Ms. Diane Peluso can be reached at dpeluso@dmpconsulting.net or her website at <http://www.dmpconsulting.net>

Getting Started

- Contract Award
 - Roadmapping
 - Contract Type (*determines requirements*)
 - Requirements Identified
 - Key Areas of Focus
- “Know-What”
 - DCAA Post Award Survey Compliance (*We passed, know what?*)
- Prime/Subcontractor
 - Agreements / Contract regulation flowdown
- Contract Financing and Billing
 - Invoicing and Payment Terms
 - Wide Area Work Flow (WAWF)

Roadmapping



- A Roadmap
 - Communicates how to get where you want to go or achieve your desired objective (*Discipline*)
- Roadmapping
 - Is a Learning process
 - Is a planning and Communication tool

Roadmapping

	Definition “Know-Why”	Direction “Know-What”	Technology “Know-How”	Action Plan “To-Do”
Sample Roadmap 	Identify Contract award type – What is involved?	Identify and define what needs to be addressed.	What tools are available? Prioritize	What resources & Investments are needed?

Definition - Contract Type (FAR Part 16)

- Fixed Price –

Provides for a firm-fixed-price or adjustable price for performance of a contract. An adjustable price may include a ceiling price, target, or both.

FFP- cannot be adjusted because of cost experience of the contractor in performing the contract.

Other Fixed Price:

(EPA, FPI, FPAF, FPLOE..)

Read the contract, terms and conditions !!!!!)

- “Know-What”

Overruns are at the risk of the contractor.

Must manage AND monitor direct and indirect expenses.

(May need to juggle indirect expenses to allow for unexpected employee performance reviews)

Some flexibility in period of performance.

If 100% fixed price, DCAA Indirect Incurred cost submissions not required.

Definition - Contract Type (FAR Part 16)

- Cost-Reimbursement –

Provides for payment of the allowable costs incurred in contract performance, to the extent prescribed in the contract.

CPFF – provides for payment of allowable costs plus a fixed fee.

Other Cost Contracts:

(Cost-no fee, ie: grants, Cost Sharing, CPIF, CPAF

Read the contract, terms and conditions !!!!!)

- “Know-What”

Strict adherence to period of performance.

Must be knowledgeable of ‘unallowable’ direct and indirect costs (refer to handout)

Must have an acceptable job cost accounting system

DCAA audit compliance requirements (ie: Incurred cost proposals, Forward Pricing Rates)

Funding limitations, Fee retention, etc.

Definition - Contract Type (FAR Part 16)

- Indefinite Delivery –

Exact times and exact quantities are not known, a contract for supplies that does not require a firm quantity, other than min/max, provides for issuance of D.O.'s during period of performance. Can be mixed cost and Fixed D.O.'s

3 types:

Definite Quantity – Scheduling upon each order.

Requirements – Estimated order and max limit

Indefinite Quantity – Unknown quantity, stated limits of services during a fixed period. SO....

- “Know-What”

Strict adherence to period of performance per D.O.

Treat each D.O. as an individual contract.

Must be knowledgeable of ‘unallowable’ direct and indirect costs (refer to handout)

Must have an acceptable job cost accounting system & DCAA audit compliance requirements

Requirements planning, contingencies, source of capital critical

Staffing plan, obligation of funds, facilities requirements, many undefined issues

Definition - Contract Type (FAR Part 16)

- Time & Materials –

Provides for payment based on direct and indirect labor based on specified labor rates; and materials/ODC's at cost. Material handling/G&A may be added.

- Labor Hour –

Like T&M, materials are not supplied by Contractor

- Letter Contract –

Preliminary Agreement usually 6 months prior to award

- "Know-What"

Must have an acceptable job cost accounting system & DCAA audit compliance requirements, labor hour tracking critical

(May need to juggle indirect expenses to allow for unexpected employee performance reviews)

DCAA audit compliance requirements (ie: Incurred cost proposals, Forward Pricing Rates) audit of hours, fixed rate and applicable indirect rates.

“Know What”

- DCAA post Award Compliance
- Financial Capability
- Accounting System
 - Key to success – accountability, compliance, performance



Financial Capability

- Audit may be performed pre or post contract award.
- What could be reviewed:
 - ✓ **Financial Statements**
 - ✓ **Cash Flow Forecasts**
 - ✓ **Loan Agreements and compliance evidence**
 - ✓ **Aging of Accounts receivables and payables**
 - ✓ **Financial History of Contractors and affiliated concern.**



Financial Capability - Sample Cashflow

		MONTHLY CASH FLOW PROJECTION FOR:												
Proj #	Project	Fcst Jan	Fcst Feb	Fcst Mar	Fcst Apr	Fcst May	Fcst Jun	Fcst Jul	Fcst Aug	Fcst Sep	Fcst Oct	Fcst Nov	Fcst Dec	Total
	COMMERCIAL	11,195	11,195	11,195	11,195	11,195	11,195	11,195	11,195	11,195				100,752
	NAVY	12,543	12,543	12,543	12,543	12,543	12,543	12,543	12,543	12,543	12,543	12,543	12,543	150,519
	ARMY				42,384	42,384	42,384	42,384	42,384	42,384	42,384	42,384	42,384	381,452
	SPAWAR PBSA							63,747	127,555	127,555	127,555	127,555	127,555	701,522
	New Business				33,350	66,700	66,700	66,700	66,700	66,700	97,816	97,817	97,817	660,301
														0
	Beginning Balance	48,655												48,655
	Salary Deferral	10,000	10,000											20,000
	Personal finance Loans		35,000	30,000										65,000
	Bank Line of Credit							10,000	10,000					20,000
Total Cash Receipts		82,393	68,738	53,738	99,471	132,822	132,822	206,569	270,376	260,376	280,298	280,299	280,299	2,148,200

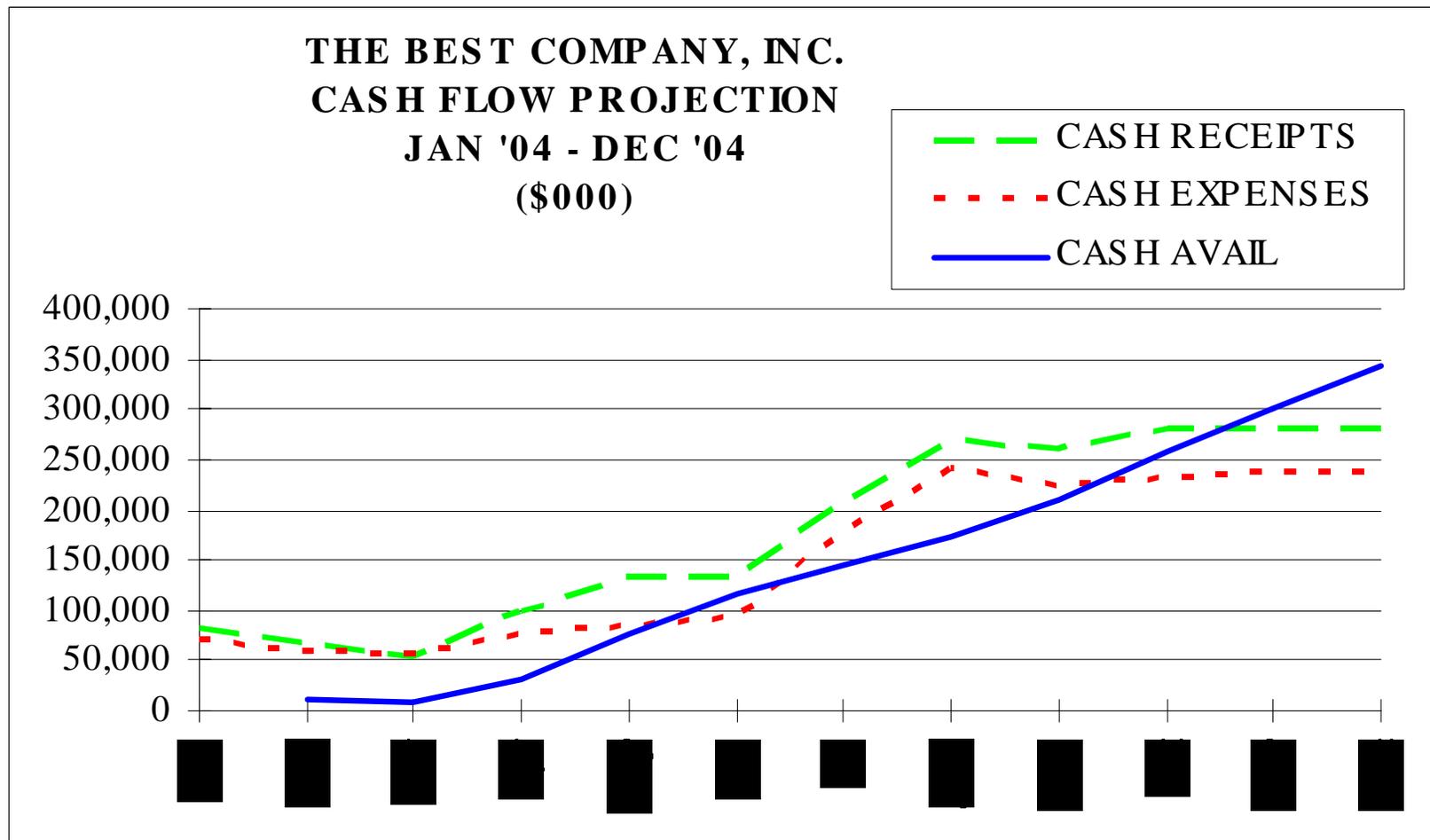


Financial Capability - Sample Cashflow

2004 CASH EXPENSES

Cost Element	Fcst Jan	Fcst Feb	Fcst Mar	Fcst Apr	Fcst May	Fcst Jun	Fcst Jul	Fcst Aug	Fcst Sep	Fcst Oct	Fcst Nov	Fcst Dec	Total
													0
Labor	30,277	30,277	30,277	30,277	30,277	30,277	90,831	90,831	90,831	90,831	90,831	90,831	726,652
Insurance	1,209	1,209	2,396	2,014	2,014	2,396	3,223	3,223	2,396	3,223	3,223	3,223	29,749
PR Taxes	2,254	2,254	2,254	2,254	2,254	2,254	6,762	6,762	6,762	6,762	6,762	6,760	54,096
Consulting Fees	10,000	15,000	15,000	30,000	35,000	35,000	50,000	100,550	100,550	100,550	100,550	100,550	692,750
Rent	1,626	1,626	1,626	1,626	1,626	1,626	5,176	5,176	5,176	5,176	5,176	5,176	40,812
Vendor Payments	2,500	8,000	5,000	10,000	10,000	12,000	12,000	15,000	15,000	15,000	15,000	15,000	134,500
Capital Acq.(leased)						821	821	821	821	821	821	821	5,750
													0
Beginning Balance	24,315												24,315
Salary Deferral Repayment					5,000	5,000	5,000	5,000					20,000
Personal Loans Repayment						5,000	5,000	12,500	2,500	10,000	15,000	15,000	65,000
Bank Line of Credit													0
Total Cash Exp.	72,182	58,366	56,553	76,171	86,171	94,375	178,814	239,864	224,037	232,364	237,364	237,362	1,793,624
NET	10,211	10,372	-2,815	23,300	46,650	38,447	27,754	30,512	36,339	47,934	42,935	42,937	354,576

Financial Capability - Sample Cashflow



Accounting System

- You have received the award, now will your accounting system accumulate costs under a Government Contract as required by DCAA.
- ✓ Proper segregation of direct & indirect costs
- ✓ Logical & consistent method for the allocation of indirect costs
- ✓ Accumulation of costs under the GL.
- ✓ Timekeeping, Labor distribution
- ✓ Exclusion of costs charged to Government contracts that are unallowable (FAR Part 31)
- ✓ Identification of costs by line item and units



Unallowables (Summarized)

Item	Description	FAR Ref. #
1	Public relations ; excluding: costs specifically required by contract, responding to inquiries on company policies and activities, conducting general liaison, participation in community service activities, plant tours and open houses.	31.205-1(f)
2	Product advertising/ company image enhancement	31.205-1(f)(1)
3	Trade shows which do not contain a significant effort to promote export sales of products normally sold to the US Government.	31.205-1(f)(2)
4	Sponsoring meetings, conventions, seminars, and other special events when the principal purpose is <i>other than</i> dissemination of technical information or stimulation of production	31.205-1(f)(3)
5	Corporate celebrations and new product announcements	31.205-1(f)(4)
6	Promotional material, motion pictures, videotapes, brochures, handouts, magazines, other media	31.205-1(f)(5)
7	Souvenirs, models, imprinted clothing, buttons and other mementos provided to customers or the public	31.205-1(f)(6)
8	Memberships in civic and community organizations	31.205-1(f)(7)
9	Bad debts , including associated legal and collection expenses	31.205-3
10	Personal use of company automobile	31.205-6(m)(2)
11	Contributions and donations , excluding costs of participation in community service activities (e.g. blood bank drives, charity drives, savings bond drives, disaster assistance)	31.205-8
12	Rentals and leases between related parties , amounts in excess of the cost of ownership	31.205-11(m)(2)
13	Employee morale and recreation ; excluding employee's participation in company sponsored sports teams or employee organizations designed to improve company loyalty, teamwork, or physical fitness.	31.205-13



Unallowables (Summarized)

14	Employee gifts ; excluding awards for performance or achievements	31.205-13(b)
15	Entertainment, social activities, social club memberships	31.205-14
16	"Key man" insurance , except when insurance represents additional compensation	31.205-19
17	Interest and other financial costs	31.205-20
18	Legislative & executive lobbying costs	31.205-22,-50
19	Selling costs ; including: product advertising, broadly-targeted sales efforts, long-range market planning, corporate image enhancement. Excluding: direct selling efforts (person-to-person contact), economic long-range planning, broadly-targeted selling efforts and short-range market planning in connection with significant effort to promote export sales of products normally sold to the US Gov't, costs specifically required by the contract.	31.205-38
20	Federal income taxes	31.205-41
21	Travel , costs in excess of maximum per diem rates set by Government regulation and costs in excess of standard commercial aircraft fares	31.205-46
22	Legal, accounting, and consulting fees directly associated with organization, reorganization, defense of anti-trust suits, prosecution of lawsuits against the Government and patent infringement suits (unless approved by the contract terms) and fraud defense if convicted.	31.205-47
23	Goodwill	31.205-49
24	Alcoholic beverages	31.205-51
25	Executive Compensation amounts in excess of statutory limits (\$432,851 1/1/04+)	31.205-6

Prime versus Subcontract

- Agreements/Contract requirements/Flowdown clauses
 - **Statement of Work-is it clear in the contract, are sub and prime functions identified.**
 - **If you are the Sub, how much work is guaranteed**
 - **Are you one of several in a pool of Sub's**
 - **Do you stay in close contact with your Prime**
 - **What unique expertise do you have**
 - **If you are Prime, can you keep more work for yourself, what is your obligation**
 - **What contract flow down clauses are applicable, as Prime are you responsible to audit the Sub? Can you switch subcontractors once you have been awarded the contract?**

Invoicing and Payment Terms



Show me the money

The Government's approach to your cash needs vary with the type of contract, the terms negotiated, contract performance and successful DCAA periodic audits

Invoicing and Payment Terms

- **Contract Type**

- **Cost-type**

- Provides interim payments for costs vouchered on a Standard Form (SF 1034) public voucher

- **Fixed-Price**

- Subject to FAR Part 32, financing may be through Progress Payments (SF1443) or Performance Based Payments. Performance based payments are not based on costs, but on events or other quantifiable measures of results. As of Jan. 1, 2004, there is NO standard form. (*Refer to Contract terms & conditions*)
 - DD250 forms may be used as evidence of a deliverable or as an invoice

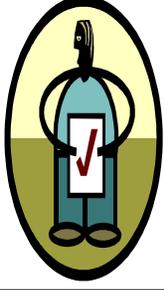
Invoicing and Payment Terms

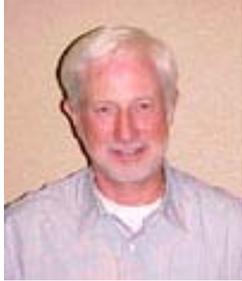
- Frequency-
 - **Small businesses may invoice twice a month,**
 - **Problems, if you are a Sub, you need to coordinate with the Primes billing cycle to the Government.**
 - **May invoice based on committed purchases, not yet paid.**
 - **Terms need to be negotiated with the Prime, generally they are NET 30 with the Government, discounts offered may accelerate payment cycle.**
 - **You are Prime, what are your obligations to pay the Subcontractor.**
- DCAA Audits
 - **Direct Billing authorized, if Adequate Billing System and internal controls are in place and incurred costs are submitted timely.**

Invoicing and Payment Terms

- ***The Wonderful World of Wide Area Work Flow (WAWF)***
 - ***<https://wawf.eb.mil>***
- **A secure DoD web based system for electronic invoicing, receipt and acceptance**
- **WAWF creates a virtual folder to combine the three documents required to pay you!**
 - The Contract
 - The Invoice
 - The Receiving Report
- **Handles all contract types, pays more efficiently, is no added cost to you and is easy!**

Roadmapping

				
	Definition "Know-Why"	Direction "Know-What"	Technology "Know-How"	Action Plan "To-Do"
Sample Roadmap 	Identify Contract award type – What is involved?	Identify and define what needs to be addressed.	What tools are available? Prioritize	What resources & Investments are needed?

**MR. PETER JACKSON**
Management Consultant

Mr. Jackson has extensive expertise in building the administrative and organizational infrastructure necessary to support decision making in complex and rapidly changing environments. His background includes over thirty years of managing and advising technology companies regarding leadership, management, management systems, organization and organization development, as well as employee ownership.

Mr. Jackson is currently the Chief Financial Officer of SuperLab, a San Diego business laboratory specializing in the assessment of entrepreneurial companies' strategic and business plans. Previously, Mr. Jackson was the Chief Financial Officer, and SVP, Finance for Epsilon Systems Solutions, Inc., a growing small 8(a) business. Epsilon is a government contractor specializing in U.S. Navy and Homeland Security engineering and "dock-side" engineering and maintenance support. Prior to Epsilon, Mr. Jackson was CFO, Vice President with MAXIM Systems, Inc., a government contractor which provided MLS secure computer system solutions to the U.S. intelligence community and several foreign intelligence organizations as well as engineering support to SPAWAR and other government, prime contractors and commercial organizations. Mr. Jackson was responsible for finance, accounting, financial and project control systems, contracts, corporate policies and procedures, accounting policies and procedures, design of employee ownership programs, shareholder accounting, HR, and facilities. He was responsible for the selection, design, installation and modification of Deltek's *Costpoint*, a sophisticated accounting software system designed for project management within organizations who sell products and services into the U.S. Government market. During the four years he was associated with MAXIM, the company grew from \$7.5 million to \$46 million in annual revenues. Mr. Jackson was also a member of the Board of Directors during the first four years of MAXIM's existence, including its formation and the purchase of the San Diego Operations from Sierra Cybernetics, Inc., MAXIM's mother company. As a founding Board Member, he became very familiar with the California Corporation Code, the laws which govern the Board of Directors of California corporations, as well as current corporate governance issues within the government contracting environment. Mr. Jackson has been a management consultant for over 20 years specializing in internal financial control, job cost accounting systems, executive and management development, and organization development. He has consulted with more than 100 companies, most of which were technology based organizations. He has consulted with, been an investor in, or served on the Board of Directors in more than 40 start-up companies. Prior to his consulting activities, he was with Science Applications, Inc. (now known as SAIC), for the first ten years of that organization's existence and growth to \$200 million in annual revenues where he held various positions from Business Manager to the Corporate, Vice President Corporate Development for Planning and Staff and Organization Development.

Developing Infrastructure

- Required:
 - Legal Advisor
 - Accounting
 - Contracts
 - Project Control
 - HR
- Growth will Require:
 - Breadth & Depth
 - Higher Level of Understanding Relationships and Priorities
 - Managerial & Executive Growth
 - Staff Development
- Two Questions You Must Continually Ask Yourself:

Developing Infrastructure

- Required:
 - Legal Advisor(s)
 - Accounting Professionals
 - Contracts Professionals
 - Project Control Professionals
 - HR Professionals
- Growth will Require:
 - Breadth & Depth
 - Higher Level of Understanding Relationships and Priorities
 - Managerial & Executive Growth
 - Staff Development
- Two Questions You Must Continually Ask Yourself:

Legal Advisor Required When

- You have incorporated in order to protect yourself and your assets, and:
 - You are a “C” or “S” Corporation or LLC
 - You have more shareholders than your spouse and yourself
 - You are an 8(a) or SDB
 - You are hiring without Professional HR Support
 - You are using contingent offer letters to staff a proposal
 - You are planning on a significant contract with regards to:
 - A Large Purchase of Anything
 - Debt From a Bank or a Factor or Your Family and Friends
 - Teaming Agreements
 - Joint Ventures
 - Consulting Agreement
 - You have or are planning to produce Intellectual Property

Professional Accounting Support Required When

- You are not a commercial product or service provider with an established list of products or services offered with prices
- You have a Government Contract which is not Firm Fixed Price Contract
- You have multiple types of Contracts
- You have sophisticated financial reporting required by a contract(s)
- You are not receiving financial reports that are meaningful and timely
- You can not seem to get the information you request from your existing staff

Professional Contracts Support Required When

- You are not a commercial product or service provider with an established list of products or services offered with prices
- You have a Government Contract which is not Firm Fixed Price Contract with Clearly Defined Deliverables
- You have multiple types of Contracts
- You have Sophisticated and Complex Deliverables
- The proposal required is more sophisticated than you are used to providing
- You are spending too much time herding the cats to obtain necessary information for proposals

Professional HR Support Required When

- Your secretary can not seem to make any headway on producing the Employee Handbook
- You are anticipating significant hiring
- You need to issue contingent offer letters in order to staff proposal being submitted
- The accounting and contract person(s) can't seem to make heads or tails of your employee categories or lack thereof
- You see 50 total employees looming on the horizon and you do not have a affirmative action policies/procedures or the capability to prepare the reports required by the DOL on the arrival of the 50th employee

Professional Project Control Required When

- You realize that you and your project managers are spending too much time with the “administrivia” of project management which interferes with their described or desired role
- You do not want to hire another professional Contracts, Financial, or Accounting employee, which is being recommended/requested
- You have increasingly sophisticated and onerous contract reporting requirements
- You notice that you are coming dangerously close to not being able to complete proposals in the allotted time
- Your eyes are glazing over as your Contracts Professional is droning on about the reporting requirements in the RFP and their inability to comply

Growth Will Require That You Prepare

- To build the necessary breadth and depth in your organization
- You and your senior staff must be dealing on a higher level of understanding regarding the complex relationships of the “moving parts” in your organization and setting the priorities and focus for issue resolution
- You must grow your internal management talents and skills or you will be hiring expensive new talent and then replacing the disappointed people below them
- You must begin to develop all levels of your staff as soon as possible

On Breadth and Depth

- Successful management of one contract does not mean that you can successfully manage the next contract
 - The new contract may be much more complex
 - Your infrastructure may not be up to the level required by the the new contract because:
 - Your systems are inadequate
 - Your people may be inadequate or too busy
- Start exercising your systems and personnel
 - Begin testing your systems and personnel
 - Determine who and what is up to the new level, additional information required, etc.
 - Train, support, and hire to achieve a higher level of operations

Higher Level of Understanding

- If you are still working on the problems that were plaguing you last year;
 - You may have been working on the symptoms rather than the problem
 - You will not grow, indeed may not survive, until you solve these problems
 - You may not have the right people working the problems
 - You may need new people with larger views and better interfacing skills, or
 - You may need more junior infrastructure people to allow the infrastructure managers more time to do higher level things and not be driven by the constant daily requirements for performance

Growing Managers

- Take the time to listen to your managers
- Do not give them the answers....lead them to the answers
- Encourage them to seek answers from other managers
- Encourage them to interact with, to ask questions of, and to know your infrastructure managers
- If there seem to be issues between your line managers and your infrastructure managers, have them both sit with you and lead them to working together
 - **Do not side with either your managers or your infrastructure**
 - **Do not play one off against the other nor denigrate either**
 - **Determine who needs private counseling, make sure that both know that the success of the company rests on their ability to communicate and cooperate**
 - **Take the time ASAP, make the investment ASAP, for it will save you much more time and complications later**

Growing Everyone

- Raise the whole organization
 - Encourage you project manager to train task managers
 - Gradually increase the capabilities of the infrastructure in steps as opposed to throwing them unprepared or tested into the proposal that determines the company's future
 - Provide them with school
 - Provide them with training sessions
 - Encourage them to join and participate in professional organizations
 - Require them to teach each other and their subordinates what they learned at outside learning experiences
 - Grow all the way throughout the organization
 - **YOU CAN NOT SHIFT THE POWER OF THE EXECUTIVE TEAM TO THE RIGHT WITHOUT SHIFTING THE WHOLE TEAMS POWER**

The TWO QUESTIONS

- What is (are) the Thing(s) of greatest impact that only you can do for your organization?
- What is (are) the Thing(s) that are keeping you from doing that/those Thing(s)?

Biography for Robert Sporrer
First National Bank

Mr. Sporrer is currently the President of the San Diego Community Banking Group for the First National Bank. Mr. Sporrer previously served as the Chairman of Capital Bank of North County, Carlsbad, California, and Chairman/CEO of Rancho Santa Fe National Bank. In addition to previous banking experience at Wells Fargo and Lloyd's Bank, Mr. Sporrer was a Partner in a Real Estate Investment & Development company for twelve years and has served on the Board of Directors of Inns of America, Austin Ridge Energy Corp. and Mira Costa College Foundation.

He received his BS Degree from the University of Wyoming and completed his MBA in Finance at the University of Southern California.

Developing Financial Backing

**How do you control your own destiny
in dealing with major contracts and
contract parties when they have more
financial resources than you do?**

Developing Financial Backing

- ALTERNATIVES:
 - 1. Equity
 - 2. Term financing
 - 3. Short term financing

Developing Financial Backing

- **CONSIDER:**
 - **A. Your goals**
 - **B. Your specific needs**
 - **C. Internal resources**
 - **D. Internal demands on cash flow**
 - **E. External demands on cash flow**

Developing Financial Backing

- A. YOUR GOALS:
 - Maximize revenue, profit, cash flow
 - Maximize leverage, ROI
 - Minimize ownership dilution
 - Minimize costs
 - Match assets & liabilities

Developing Financial Backing

- **B. YOUR SPECIFIC NEEDS:**
 - **I. Financial condition:**
 - **Equity**
 - **Liquidity**
 - **Operating cash flow**
 - **Assets - sufficiency & quality**
 - **Liabilities – structure & quality**

Developing Financial Backing

- **B. YOUR SPECIFIC NEEDS:**
 - **II. Operating condition:**
 - **Strategic / business plan**
 - **Management**
 - **Line & support personnel**
 - **Production capabilities**
 - **Information reporting & control**
 - **Exit strategy**

Developing Financial Backing

- B. YOUR SPECIFIC NEEDS:
 - III. Market Condition:
 - Geographic
 - Transportation & communication
 - Talent availability
 - Financial institutions

Developing Financial Backing

- C. INTERNAL RESOURCES:
 - Human
 - Materials
 - Productive
 - Financial
 - Information

Developing Financial Backing

- D. INTERNAL DEMANDS ON CASH FLOW:
 - Human
 - Materials
 - Productive
 - Information
 - Ownership

Developing Financial Backing

- **E. EXTERNAL DEMANDS ON CASH FLOW:**
 - **Vendors, subcontractors**
 - **Plant & facilities**
 - **Debt service**
 - **Insurance**

Developing Financial Backing

- **QUESTIONS TO ANSWER:**
 - **Can you effectively manage the scale of magnitude?**
 - **Can you make the profit you anticipate?**
 - **Can you control the volume and quality of output?**
 - **Can you generate and use meaningful information?**
 - **Can you identify and manage upside / downside risks?**
 - **Can you identify two sources of repayment?**

Developing Financial Backing

- ALTERNATIVES:
 - 1. Equity
 - 2. Term financing
 - 3. Short term financing

Developing Financial Backing

- 1. EQUITY – issue becomes availability / dilution:
 - Personal resources:
 - Savings / home equity
 - Family & friends' resources:
 - Savings / home equity
 - Strategic partner:
 - Liquidity / terms & conditions
 - Venture capital:
 - Liquidity / terms & conditions

Developing Financial Backing

- 2. TERM FINANCING – issue becomes structure & costs:
 - **Mezzanine debt:**
 - **Extended terms**
 - **Convertible / Subordinated**
 - **Conventional term debt:**
 - **Extended terms**
 - **Collateral**
 - **SBA**
 - **Commercial bank**

Developing Financial Backing

- 3. SHORT TERM FINANCING – issue becomes structure:
 - **Conventional line of credit:**
 - Advance against A/R
 - Timing differences
 - Accelerates cash flows
 - **Transactional – asset based:**
 - All the same characteristics above
 - Non-bankable companies
 - Tighter controls
 - Higher cost

Developing Financial Backing

- YOU AND YOUR BANKER:
 - Mutual understanding
 - Mutual goals
 - Mutual values
 - Mutual trust
 - Mutual communication & candor
 - Must drive to solutions

Developing Financial Backing

- **YOUR BANKER:**
 - **Will help you:**
 - Identify alternatives
 - Determine the appropriate structure
 - Select the options that are best for you
 - **Will add value:**
 - Experience
 - Judgment
 - Technical knowledge
 - Network of expertise

Developing Financial Backing

- **YOU:**
 - **Create a relationship**
 - **Understand your banker's value**
 - **Be willing to pay a fair price**
 - **Look to the long term**
 - **Obtain the financing you need**

Developing Financial Backing

**How do you control your own destiny
in dealing with major contracts and
contract parties when they have more
financial resources than you do?**



Developing Financial Backing

By having a relationship with a financial institution that will help you select the proper financing package to best meet your goals.